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5 December 1974

INTELLIGENCE MEMORANDUM

SUBJECT: Giscard's Domestic Position and Its Effects on His Foreign Policies

PRECIS

In his campaign for the presidency six months ago, Giscard d'Estaing emphasized foreign policy continuity — a politically sound strategy.

he nonetheless considered some major changes in defense and European policy. Giscard's failure to follow through with any fundamental alterations in French foreign policy can be explained by:

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- his weak political base. Giscard has not moved as expected to build an alliance between his own Independent Republicans, centrist parties, moderate leftist and disaffected Gaullists. Gaullist foreign policies retain widespread public support in France and Giscard apparently has decided that he cannot challenge the Gaullists and public opinion at the same time. Meanwhile, the left has the advantage of being able to snipe at Giscard without coming up with alternatives to any of his programs.
- France's serious economic problems. Giscard's need to focus most of his attention on the economic situation has taken away time that might otherwise have been devoted to considering modifications in foreign policy. Inflation, unemployment and other economic problems combined with a social and economic system badly in need of overhaul add up to a situation that in some ways is worse than the period before the 1968 crisis when disgruntled workers and students almost brought down the government.
- -- Giscard's failure to devote full attention to his job.
 He prefers to work in short bursts and to hold his cards close to his chest. This style, as applied to the presidency, has led to dissatisfaction among senior civil servants and lent an air of unpredictability to his policy-making. Criticism of his style has broken into the press and public confidence in his ability to govern has dropped.

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State Dept. review completed

Giscard personally has much more positive feelings toward the US than his Gaullist predecessor, and has been predisposed toward cooperation rather than confrontation. Nevertheless, this government shares with the Gaullists — and the left opposition — a conviction that France's interests, and those of Western Europe, are not identical of those of Washington. Giscard's less abrasive approach has not been translated into new policy directions regarding energy or the Middle East. French proposals for new moves toward European unity have barely gotten off the ground and any plans for greater defense cooperation with NATO have been postponed sine die.

Giscard anticipates that the Martinique meetings will cover a wide range of topics. He has told US reporters that he wants to concentrate on the following issues:

- -- the US attitude toward Europe, particularly European unity;
- -- inflation and world economic and monetary disorder;
- -- the energy problem;
- -- the F-104 replacement competition and the US position on the Anglo-French Concorde civil aircraft;
- -- the Middle East, particularly the Palestine issue; and
- -- the situation in Indochina.

Of these, it is likely that he will generally place the stress on inflation, economic and monetary matters, and energy problems. (Particulars about the French agenda for Martinique appear in the text below.)

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More Continuity Than Changes

- 1. President Valery Giscard d'Estaing won the election six months ago on a platform that stressed "change with continuity." When Giscard spoke of change he was referring largely to domestic issues, while projecting continuity in French foreign policy.
- 2. There were at least two major reasons why Giscard wanted to avoid any suggestion that he intended to tamper with the basic tenets of French foreign policy. The Gaullists whom Giscard badly needed in an electoral alliance would have considered it heresy. In addition, it would not have been popular with the electorate. A public opinion poll taken during the campaign confirmed that a majority of French citizens saw no reason to alter the late President Pompidou's foreign policy.
- 3. In light of these political realities, many attributed Giscard's endorsement of Pompidou's foreign policies to expediency and believed that once in office he would develop bold new guidelines.

 dent was indeed considering some major changes, for example, in defense and European policy. He was said to be interested in:
 - -- working toward a European defense force that would include the British and French nuclear capacities and allow the West Germans a role in the control and deployment of the nuclear weapons;
 - -- increasing French cooperation with NATO on targeting tactical nuclear weapons and, possibly, associating France with NATO's Eurogroup and the Alliance's integrated communications and radar systems;
 - -- Giscard actually floated prospects for developing a new method of floating the EC currencies against the dollar to encourage greater community unity, which was not accepted by his EC partners; and
 - -- trying to strengthen EC unity by periodic summits, increasing the power of the European parliament, allowing majority rule in the Council

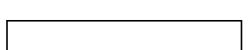
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on most issues, and increasing cooperation on transport, environment and civil aviation.

- 4. Although Giscard has examined such new approaches to foreign policy, he has not yet made any fundamental alterations. His style is less abrasive but the substance is essentially unchanged. Several factors have contributed to maintaining the status quo.
- 5. For one thing, Giacard's weak political base has placed constraints on innovations. In addition, France's serious economic problems have made departures from a highly nationalistic foreign policy untimely. Finally, it appears that Giscard may not be devoting his full attention to his job, and any new programs under consideration may have suffered as a result.

Giscard's Style

- 6. In recent weeks, there has been proliferating private criticism by senior civil servants and rival politicians of Giscard's alleged failure to act on a broad range of policy questions, and this has broken into the press. Opinion polls show that public confidence in his ability to govern effectively has dropped sharply. While much of the criticism can be traced to political rivalry and genuine policy differences, it is a fact that Giscard is often not at his desk.
- 7. Giscard prefers to work in short bursts, absorbing data and resolving problems at the last moment. In the past, his performance has often been brilliant but his critics insist that the presidency cannot be run by last minute improvisation, however masterful. His apologists argue that Giscard's style allows him to spend less time in his office pouring over dossiers and that he manages to get more done through informal channels.
- 8. The President's habit of holding his cards close to his chest has also complicated his administration and has lent an air of unpredictability to his policy-making. In foreign policy, for instance, his recent proposal for a tripartite energy conference -- while not a new conception in French energy policy -- evidently was not coordinated outside his immediate circle. Similarly, even the foreign minister is having difficulty in reaching the President to learn what policy guidelines should govern his preparations for the EC summit that Giscard has called for December 9-10 in Paris. (There is considerable talk in Paris that Foreign Minister Sauvagnargues will not remain long in that office.)



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The Economy

- 9. Giscard's need to focus most of his attention on France's economic situation has been one of the major forces holding up any foreign policy innovations. In some ways the French economic and social system is in a worse condition than it was prior to the 1968 crisis when disgruntled workers united with dissatisfied students and almost brought down the government.
 - -- The inflation rate is now running at 15 percent a year, despite the government's hopes to bring it down to 12 percent by the end of this year.
 - -- Unemployment, at over 600,000, is at its highest since World War II and still rising.
 - -- Small and medium businesses weakened by the effects of inflation and the government's austerity program are failing at a high rate.
 - -- The national economic growth rate has dropped, and
 - -- Efforts to rectify the balance of payments deficit created by the energy crisis have been hampered by the latest oil price rises.
- their pay and that of the highest paid levels the largest gap in Western Europe can be reduced. The less advantaged are clamoring for greater government assistance; and the average citizen wants more government services. Little has been done to rectify the problems caused by the nation's overcentralized political control and massive reforms of the educational system are still urgently needed. All of these are costly, however, and to a large extent contrary to Giscard's social conservatism. While he called for change during the election campaign, Giscard is inclined to initiate as few and as narrow programs as possible. This will be reinforced by budgetary considerations. But, if he fails to gauge correctly the degree of change that will satisfy the voters, he will play into the hands of his opposition.

Gaullist Power

11. Most of Giscard's allies, as well as his opponents, expected him to move quickly to build an alliance between his cwn Independent Republicans, centrist parties, moderate leftists and disaffected Gaullists to create a powerful new center majority.

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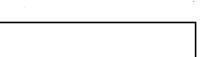
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- 12. It is difficult to put in concrete terms the extent of the Gaullists' remaining influence, but there is no doubt that Giscard's inaction has allowed them time to regroup. Their national leadership had been in disarray since the presidential election last May and their voters, as well as some party leaders have been the targets of recruiting drives by the other members of the governing coalition and the left. Nevertheless, the Gaullists continue to be the strongest party in the French Assembly and will continue in that role until the next parliamentary elections scheduled for 1978 unless Giscard displays more vigor building a centrist majority than he has shown to date.
- 13. Gaullist foreign policies retain widespread public support, in part because DeGaulle was able to capture the nation's imagination with his persuit of "gloire." The average French voter who cares little for the specifics of foreign policy as long as its general course reflect French independence and helps the French economy, is not likely to lobby for change. The nation's economic problems have left the people less interested in foreign affairs and reinforced their conviction that no changes that could endanger the economy should be made. Giscard thus has no popular mandate for dramatic changes in policy toward NATO, the EC or the US. He would, moreover, face strong opposition from the Gaullists and from the left if he pressed for changes in these directions. Nevertheless, opinion polls show the public would be more open to new directions in foreign policy -- if Giscard were to lead them more dynamically along these paths.

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^{*} Giscard's Independent Republicans hold only 55 of the 490
Assembly seats, and his centrist allies account for another 50-odd seats. He is thus dependent for a working majority on the Gaullists who hold about 180 seats. The left also holds about 180 seats, divided into about 70 for the Communists and about 90 for the Socialists, with the other 20 held by smaller leftist groups.

- 14. The President has evidently decided that he cannot challenge the Caullists and public opinion at the same time. If Giscard should sense that he has public backing on a foreign policy issue, he would challenge the Gaullists as he did on the abortion bill passed by the Assembly last week.
- The Communists' and Socialists' recent diagreements over domestic political tactics have centered on their growing rivalry for control of the French left and, in particular, their relationship to Giscard if the left should win a majority in the next legislative election. With respect to foreign policy, they have so far been able to preserve their unity. The left is in the enviable position of being able to play a waiting game, sniping at Giscard without being responsible for viable alternatives to any of his programs, and counting on the government's troubles to increase the left's votes in the next legislative election. If they choose to do so, the leftists might eventually be able to gain enough Gaullist votes in the Assembly to push through a no confidence vote that could precipitate early elections. Most Gaullist deputies are likely to realize, however, that they are as likely to fall victim to leftist candidates as their partners in the governing coalition. The Gaullists know that retention of the majority of their 180odd seats is essential to the resurgence of their party.
- The left opposition -- Communists and Socialists -is allied with the largest labor confederations which control the majority of the 17 percent of French labor that is These unions tried without much success last month unionized. to rally workers against the government's refusal to allow large wage increases in certain sectors of the economy. Nevertheless, they have the power to cause Giscard serious trouble in the future, even though they realize that calls for widespread strikes and demonstrations could backfire. At present most workers (especially those in the private sector, of whom only 15 percent are union members) are fearful of unemployment and unwilling to jeopardize their jobs by striking. If conditions become so difficult that the majority of these workers take to the streets, the situation will probably already have passed the point at which union leaders and activists could control them. The unions have already found, to their chagrin, that they had no control over striking mail sorters in Paris who prolonged a strike that paralyzed the French postal system for most of the last two months.



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17. Workers could not be rallied by the unions on a foreign policy issue per se, but the widespread public concern over the state of the economy will make the government even less likely to make any moves in external policy that might appear to carry risk to France's economic interests.

Foreign Policy Specifics

18. Giscard personally has much more positive feelings toward the US than his predecessors and has been predisposed toward cooperation rather than confrontation. His senior appointees are similarly inclined, and the Gaullist abrasiveness is no longer a characteristic of France's foreign policy Nevertheless, this government shares with the approach. Gaullists -- and the left opposition -- a conviction that France's interests, and those of Western Europe, are not identical to those of Washington and that they should not be subordinated to US wishes. The President himself and other senior officials have told US diplomats not to indulge in wishful thinking that France under his leadership will become as close a US partner as the UK and the FRG. Other than an increased willingness to consult with the US, Giscard's approach has not been translated into improvements in other areas of the relationship.

Energy

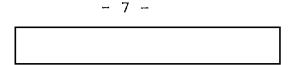
Giscard is known to have disapproved of former Foreign Minister Jobert's penchant for trying to negotiate bilateral deals with Arab oil producers and with the initial French decision to stay out of the Energy Coordinating Group when this was proposed early this year. Several months ago the Giscard government was apparently considering participating in the follow-on to the Washington Energy Conference and joining the International Energy Agency. The President waffled, however, and for the last few months he has acted as if he has concluded that the independent route is still France's best bet for avoiding a confrontation with the producers.

20. The French have had limited success, however, in parlaying their pro-Arab stance into oil deals or increased investment. Paris at least has managed not to lose ground

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with the Arabs, as illustrated by reports that Iraq and Saudi Arabia are considering advancing it loans totaling several billion dollars. Deals with the Arabs have contributed handsomely to France's record \$3 billion arms sales this year and this will help to balance its budget deficit. An arrangement that reportedly began last month with Libya will give France significant quantities of crude at below market prices — apparently because the Libyans are having difficulty finding customers.

- On October 24, Giscard proposed an energy conference between representatives of the producers, consumers and undeveloped states. Despite the President's denial, his call for the conference was intended to steal a march on the more deliberate strategy behind the Energy Coordinating Group's activity. Most of the Arab oil producers and Third World countries have shown varying degrees of enthusiasm for the French initiative. The Europeans for the most part regard the conference as premature. They believe consumer concertation must come first. They nevertheless would like to find a way to marry the French and US proposals. of course is aware that holding the conference depends upon US acquiescence, but the French probably believe their proposal has already served a purpose in crystallizing the opinion of those opposed to a "confrontation" between producers and consumers. The preparatory meeting Giscard hoped to hold in November has now been postponed until at least after the OPEC meetings in December and this will set back even further the timetable for the conference itself.
- 22. France wants a common EC energy policy, but has not been able to forego the temptations of unilateralism, which is rooted in French economic and political concerns of long-standing. Meanwhile, its partners in the EC are pinning their hopes on the US-sponsored Energy Agency. While they want to avoid a confrontation with France on this issue, they believe that until France moves toward a relationship with the IEA, either by joining directly or as a de facto member through an EC membership, progress in the EC will be generally hampered. Paris says that EC energy cooperation must come first.
- 23. France would not need to alter its oil reserve holdings policy or its self-imposed restrictions on energy use to meet IEA requirements. However, if Giscard joined the Agency



directly he would be criticized by the Gaullists and the left for entering an organization that would allow the US to "dictate" West Europe's energy policy and encourage confrontation with the producers. The Gaullists would hit hard on what they would see as an abdication of national sovereignty in the Agency's emergency oil sharing procedures. If a common EC energy policy is negotiated and France thereby becomes a de facto participant in the IEA, Giscard can hope to blunt some of the criticism. On December 4, he hinted to US newsmen that France might take a "half in, half out" approach to the IEA like that proposed by Norway. The general public, deeply concerned over present and impending economic problems, has expressed no clear prefernce for any course of action as long as what is done is effective.

The Middle East and Arms Sales

24. Giscard's Independent Republicans in the past have had a more positive attitude toward Israel than the Gaullists. The new government at first seemed willing to restore to some extent France's ties with Tel Aviv. But the President himself ordered the meeting between his foreign minister and PLO leader Yasir Arafat in October that made inevitable the chilly atmosphere at the foreign minister's subsequent stop in Israel. France went on to vote in favor of allowing the PLO. to participate in the UNGA debate on Palestine.

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The European Community

26. When Giscard came into office, he apparently had high hopes for initiating new moves toward EC unity during France's tenure in the last half of this year. He commissioned a study to that effect and has considered:

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have prevented the expected flowering of the men's personal ties into cooperative leadership. Schmidt himself has indicated some disappointment in Giscard's performance.

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The HCCP		

The USSR and Eastern Europe have not been priority areas for Giscard, but his government has continued Pompidou's efforts to expand political and economic ties. Giscard is known to want to establish his own working relationship with Brezhnev and to overcome any remaining Soviet suspicions that his is too much of an "Atlanticist." To this end, he will probably be more responsive than Pompidou had been to Soviet desires for a summit level CSCE stage III which Brezhnev will probably raise when he visits Paris on December 5-7. French nonetheless will reiterate their firm position on humanitarian issues in the CSCE and their opposition to a follow-up conference of organization. Moscow has also reiterated its desire to involve the French in the Genevabased Disarmament Committee (CCD) and its intention to raise that issue at the December meeting. There is no indication, however, that Giscard had decided to reverse France's refusal to enter the CCD or MBFR forums.

25X6 The Martinique Agenda

30. the French are

planning for a summit that will cover a wide range of topics.

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Giscard told several US reporters on December 4 that he wants to concentrate on these issues with President Ford:

- -- the US attitude toward Europe, especially toward European unity;
- -- inflation and world economic and monetary disorder, and what the US and France can do together to meet these problems;
- -- the energy problem;
- -- the rivalry over which military aircraft will replace the four-nation European consortium's F-104s and the US position on the Concorde civil aircraft;
- -- the Middle East, particularly differences over the Palestine issue; and
- -- the situation in Indochina.
- 31. Giscard said the world was caught up in "negativism" compounded by the rupture of the world monetary system. He attributed this to "US destruction of fixed parities." He noted that current economic problems hit hardest those countries that already had serious economic problems, citing Italy, the UK, and Portugal as examples.
- 32. Giscard made a point of the urgency with which negotiations for a Middle East settlement must be undertaken while there is still a chance to obtain a "peaceful equilibrium" and prevent another war. He also said action is now necessary because there is still a consensus among the major powers on the existence of Israel within its pre-1967 boundaries, with minor modifications.

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34.	On Soviet policy, Giscard said he thought events in
Portugal	and Italy showed that the USSR is urging other
communis	t parties to work within the democratic system. He
claimed -	that the communist role in Portugal or in a future
Italian	government would not have implications for France.

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- 35. Giscard admitted to the group of reporters that France's policy of remaining apart from the Energy Coordination Group had not been effective, and hinted that France might accept a "half in, half out" relationship to the IEA like that proposed by Norway.
- 36. The French leader characterized US objectives on energy as "ambiguous" and said its approach was inspired by a spirit of confrontation. He added that he will seek a US guarantee that it accepts well-prepared dialogue with the Arabs. He denied that he favored indexation of oil prices, but said a system should be devised to protect the producers against inflation.
- 37. French preoccupation with energy problems also was evident in a recent meeting between Ambassador Rush and Foreign Minister Sauvagnargues to review the summit agenda. Ambassador Rush was left with the impression that the French appreciate the need for an understanding between consumer nations before a dialogue is organized with the producers

38 Sauvagnargues also said that the French would like to discuss the entire range of nuclear relationships in all areas and all major world issues including the Vladivostok agreement.

- 39. Our Embassy in Paris believes Giscard will raise the subject of the proposed US sale of a portion of its gold stock. The President reportedly was "considerably irritated" on hearing of the proposal, which he expects will cause the market price of gold to fall and thereby reduce the potential value of France's gold reserves.
- 40. The Embassy also expects Giscard to express concern about the adverse effects on France of the current anti-in-flation programs in the US and West Germany and to suggest that they should begin reflating to avoid reinforcing recessionary tendencies in Europe.
- 41. Giscard has also been given briefing papers on the Cmega agreement, concerning the land-based navigation station to be built on Reunion in the Indian Ocean, and on the US request for relief from military overflight charges, according

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to the Embassy. Giscard is not expected to broach either issue himself; the papers are designed to prepare him in case the US side does.

- 42. Both issues appear to be bogged down within the French bureaucracy. The Omega agreement was signed in the spring of 1973, and parliamentary approval had been taken more or less for granted. Approval has been delayed, however, and recently some doubt has been cast on the outcome.
- 43. The US request for relief from military overflight charges also dates back to the spring of 1973. Since then, there has been a long history of repeated efforts by our Embassy to effect action. French officials protest that they are involved in an exhaustive analysis of the request and say they cannot predict how long the review may take.
- 44. The snail-paced progress of both issues probably reflects the low priority attached to them by the French Government. It may also reflect Giscard's delicate relationship with a predominantly Gaullist parliamentary majority that considers itself independent of the presidency.